

Message Text

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ACTION EB-11

INFO OCT-01 EUR-25 EA-11 ISO-00 AEC-11 AID-20 CEA-02

CIAE-00 CIEP-02 COME-00 DODE-00 FEA-02 FPC-01 H-03

INR-10 INT-08 L-03 NSAE-00 NSC-07 OMB-01 PM-07 RSC-01

SAM-01 SCI-06 SPC-03 SS-20 STR-08 TRSE-00 DRC-01 PA-04

PRS-01 USIA-15 /185 W

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FM AMEMBASSY TOKYO

TO SECSTATE WASHDC PRIORITY 490

INFO AMEMBASSY BONN

AMEMBASSY THE HAGUE

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

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USMISSION EC BRUSSELS

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E.O. 11652: NA

TAGS: ENRG, PINT, JA

SUBJ: END TO PRICE FREEZE ON PETROLEUM PRODUCTS IN SIGHT

REF: A. TOKYO 2993 B. TOKYO 2689

SUMMARY: IN FACE OF THREATENED OIL PRODUCT SHORTAGES AND PRESS CRITICISM, LDP HAS AGREED IN PRINCIPLE TO ALLOW DOMESTIC PETROLEUM PRICE INCREASES. AGREEMENT GIVEN IN EXCHANGE FOR MITI PROMISE TO ISSUE GUIDANCE DESIGNED TO FREEZE PRICES OF MANY OTHER COMMODITIES IN ORDER TO DELAY INFLATIONARY IMPACT. NEW OIL PRICES WILL BE WORKED OUT OVER NEXT WEEK OR SO, BUT INDICATIONS ARE THAT THEY MAY NOT BE HIGH ENOUGH TO SUIT MAJORS. END SUMMARY.

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1. MITI HAS FINALLY OBTAINED APPROVAL IN PRINCIPLE OF LDP LEADERS FOR ITS PLAN TO RAISE DOMESTIC OIL PRODUCT PRICES WHICH HAVE BEEN FROZEN AT DECEMBER LEVELS. LDP'S LIVELIHOOD STABILIZATION HEADQUARTERS GAVE TENTATIVE GO-AHEAD IN MAR 7 TALKS WITH MITI AND ECONOMIC PLANNING AGENCY. NEW PRICE STRUCTURE HAS NOT YET BEEN WORKED OUT, BUT INDICATIONS ARE THAT MITI WILL HAVE TO COMPROMISE SOMEWHAT ON ITS DESIRE FOR INCREASE OF ABOUT YEN 9,100 PER KILOLITER, AND ACCEPT LOWER PRICE INCREASE.

2. LDP APPROVAL OF OIL PRICE HIKE WAS APPARENTLY GIVEN IN EXCHANGE FOR PROMISE BY MITI THAT IT WOULD TAKE MEASURES TO FREEZE PRICES OF MANY DIFFERENT COMMODITIES. MITI WILL ISSUE QTE ADMINISTRATIVE GUIDANCE UNQTE FREEZING PRICES OF 1 BASIC INDUSTRIAL MATERIALS INCLUDING CEMENT, STEEL, PAPER, AND PETROCHEMICALS. MINISTRY HAS ALSO REPORTEDLY OBTAINED CONSENT OF DEPARTMENT STORES AND SUPERMARKETS

TO FREEZE PRICES OF 160 DAILY NECESSITIES "FOR TIME BEING". 17 TRADING FIRMS WILL ALSO REPORTEDLY SOON BE ASKED TO TAKE SIMILAR PRICE CONTROL ACTIONS. IF SUCCESSFUL, MITI ACTION MAY KEEP HIGHER OIL PRODUCT COSTS FROM INCREASING ALREADY VERY RAPID INFLATION RATE (OR AT LEAST DELAY THE IMPACT UNTIL AFTER UPPER HOUSE ELECTIONS IN JUNE OR JULY).

3. ACCORDING MITI SOURCES, GUIDANCE WILL BE GIVEN TO REFINERIES NOT ONLY ON AVERAGE RATE OF INCREASE FOR ALL OIL PRODUCTS, BUT ON RATES OF SPECIFIC PRODUCTS AS WELL. PRICES OF PRODUCTS USED PRIMARILY BY CONSUMERS OR WHICH AFFECT CONSUMER PRICE LEVELS DIRECTLY (KEROSENE AND OIL USED BY TRUCKS AND FISHING VESSELS) WILL BE RAISED BY AMOUNT LESS THAN ALL-PRODUCT AVERAGE: PRICES OF OTHER PRODUCTS SUCH AS GASOLINE WILL BE RAISED MORE THAN AVERAGE FIGURE.

4. MITI IS CONTINUING NEGOTIATIONS WITH PARTH LEADERS INCLUDING PM TANAKA TO WORK OUT EXACT PETROLEUM PRICES AS WELL AS PRICE FREEZE PROCEDURES FOR OTHER COMMODITIES. THESE TALKS WILL PROBABLY TAKE AT LEAST A WEEK SO THAT LIMITED OFFICIAL USE

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IT COULD BE 10-14 DAYS (OR LONGER IF DISPUTES DEVELOP) BEFORE PRICE INCREASES FOR OIL GO INTO EFFECT.

5. COMMENT: PM TANAKA AND LDP HAVE BEEN UNDER VERY HEAVY AND GROWING PRESSURE FROM LOCAL OIL COMPANIES AND MAJORS TO LIFT PRICE FREEZE, AND IT HAD BECOME EVIDENT THAT UNLESS PRICE FREEZE LIFTED, SIGNIFICANT OIL PRODUCT SHORTAGES WOULD APPEAR IN MID-MARCH. EXXON

HAD ALREADY NOTIFIED PLANS FOR 15 PERCENT CUTBACK IN PRODUCT SUPPLIES (SEE REF A). MOBIL AND SHELL HAD ALSO HELD PRESS CONFERENCES IN LAST TWO DAYS WARNING THAT SUPPLY CUTS WERE ON THE WAY UNLESS PRICE FREEZE LIFTED. LOCAL OIL COMPANIES WERE APPARENTLY QUIETLY TAKING SIMILAR ACTIONS TO REDUCE SUPPLIES. SOMEWHAT SURPRISINGLY, PRESS IN PAST SEVERAL DAYS HAD ALSO BEGUN TO CRITICIZE PRICE FREEZE. FOR EXAMPLE, ASAHI IN MARCH 7 EDITORIAL SAID THAT WHILE PM TANAKA MAY HAVE NUMBER OF URGENT POLITICAL CONSIDERATIONS IN MIND IN MAINTAINING OIL PRICE FREEZE, HE SHOULD NOT BE SWAYED TOO STRONGLY BY POLITICALLY MOTIVATED REASONING BUT SHOULD ATTACH IMPORTANCE TO ECONOMIC PRINCIPLES. GIVEN THESE VARIOUS PRESSURES, LDP FINALLY ACCEPTED IN PRINCIPLE MITI PLAN TO RAISE OIL PRICES WHILE HOLDING DOWN PRICES OF OTHER COMMODITIES.

6. NEXT QUESTION IS WHETHER PRICE RISE WILL PROVE TO BE ENOUGH TO OFFSET THREATENED OIL SHORTAGES. MAJORS AND INDEPENDENTS ALIKE WERE ASKING FOR YEN 10-13,000 PRICE INCREASE, BUT WILL PROBABLY GET ONLY YEN 8800-9000 AVERAGE INCREASE.

7. MITI PLAN FOR LIMITED OIL PRICE HIKES AND CONTROLS ON PRICES OF OTHER COMMODITIES RAISES NUMBER OF OTHER IMPORTANT PROBLEMS FOR JAPAN. EMBASSY WILL REPORT ON THESE IN FUTURE. SHOESMITH

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